

Winning Acquisition Strategies

By Anthony Lembo

In an article published in the July 2010 issue of McKinsey Quarterly, authors Marc Goedhart, Tim Keller, and David Wessels identified “The five types of successful acquisitions” that create value for the buyer. Their analysis was based on experience, rather than any empirical research, and the strategies they listed were improving the performance of the seller, consolidating excess capacity in the industry, creating market access for products and services, acquiring new skills faster and at lower cost than you could build yourself and identifying winners early and helping develop their business.

Below is a further description of each strategy and examples how they have been used in the IT M&A market.

Improving the performance of the seller: This strategy usually entails creating cost saving synergies such as eliminating duplicate expenses in the case of a strategic buyer, or, as many private-equity firms favor, reducing expenses. In the IT Solutions Provider space, a case can be made for an acquisition just based on SG&A cost-saving reductions of duplicate expense.

Consolidating excess capacity in the industry: Acquiring competitors and closing excess capacity, thereby providing more balance of supply and demand, can prove fruitful. In the data center outsourcing space, redundant data centers can be eliminated, increasing utilization and reducing fixed costs over multiple data centers.

Creating market access for products and services: This acquisition strategy is one of the key drivers in the IT space. Larger companies with robust sales and distribution channels acquire smaller, usually complementary technical capabilities and distribute the products using their channels. The recently announced acquisition of Yammer by Microsoft is a prime example. In the past year, IBM, Salesforce.com and Cisco also have announced transactions that fall in this category. We believe a winning variant of this strategy is when IT service companies who have limited sales and marketing capability acquire a Solution Provider who can bring access to a larger customer base at an attractive valuation point.

Acquire new skills faster and cheaper: Using acquisitions to provide new technical skills or product capabilities is another large driver in the IT space. Perficient (NasdaqGS-PRFT) is currently executing on this strategy. In the past year they have acquired five services companies adding new skills and geographies to their portfolio.

Identifying winners early: This is the Holy Grail in acquisitions with the most risk and reward. This strategy is most employed by the venture capital community as they search for the next Facebook, Google or other disruptive technology. Because of the high risk and reward, this strategy is usually not employed by strategic acquirers.